

Lowell C. McAdam  
President & Chief Executive Officer



Verizon Wireless  
One Verizon Way  
Basking Ridge, NJ 07920

October 6, 2008

The Honorable Herbert Kohl  
Chairman, Subcommittee on  
Antitrust, Competition Policy, and Consumer Rights  
U.S. Senate Committee on the Judiciary  
Washington, DC 20510-6275

Dear Chairman Kohl:

I write in response to your letter dated September 9, 2008, regarding rates for certain consumers of text messaging services. This letter follows up on a September 22 meeting with members of your staff to respond to the questions posed in the letter. We appreciate the opportunity to describe Verizon Wireless' rate structure for text messaging services and to explain why that rate structure is consistent with—indeed, driven by—competitive market conditions.<sup>1</sup>

Verizon Wireless is proud to offer customers a wide range of choices for text messaging services. We are continually evaluating and honing our messaging options to respond to changing customer needs and growing demand, and we encourage customers to pick the option that is best for them.

The vast majority (approximately 70%) of Verizon Wireless customers who use text messaging choose a plan with a fixed monthly fee—either unlimited text messaging or one of multiple bundles, which can include, for example, unlimited text messaging with other Verizon Wireless customers and a monthly allotment for messaging with non-Verizon Wireless customers. Bundles are available for as little as \$5 per month.<sup>2</sup> For customers who are more than occasional text messaging users, bundles or unlimited messaging are generally the best fit because they provide both better value (through a lower effective per message rate) and cost predictability. For customers who only use text messaging sporadically, Verizon Wireless also offers an option to pay on a per text message basis with no monthly fee. The 20 cents per text message rate referenced in your letter applies *only* to customers who choose to “pay-as-you-go” instead of taking advantage of bundles or unlimited messaging, both of which result in a much lower per-message effective rate.

---

<sup>1</sup> This letter contains highly sensitive, business confidential information. We respectfully request that this letter and its contents be maintained as confidential and not disclosed.

<sup>2</sup> Attached is a summary of text messaging plans currently offered by Verizon Wireless.

As text messaging has grown dramatically in recent years—from 4.8 billion messages per month in August 2006 to 22.3 billion messages per month in August 2008—customers increasingly choose to subscribe to messaging bundles or unlimited messaging. As a result, more than 98% of the text messages currently sent on the Verizon Wireless network are attributable to customers who subscribe to bundles or unlimited messaging. The growing popularity of bundled and unlimited messaging plans has led to a rapid and consistent decline in the overall effective rate per text message. Between the second quarter of 2006 and the second quarter of 2008, the effective rate per text message sent or received by Verizon Wireless customers dropped by 60% and is now less than 2 cents per message. The bottom line is that the effective rate for text messaging has been decreasing, not increasing.

Verizon Wireless strives to ensure that customers are matched with the text messaging option that makes the most sense for them. One way we do this is through a program called High Usage Early (“HUE”), which was implemented in November 2007. Each month, Verizon Wireless examines millions of customers’ usage mid-billing cycle, identifies customers whose usage in that month indicates that they might benefit from a different plan, and reaches out to those customers to give them an opportunity to adjust their text messaging options with retroactive benefits to the beginning of the billing cycle. Verizon Wireless recognizes that it is in neither the customer’s nor the company’s interest for customers to pay the pay-as-you-go rates if their usage makes a bundle or unlimited messaging a lower cost option. These efforts have been successful in helping customers choose an appropriate text messaging plan: while customers who subscribe to a bundle or unlimited plan send or receive several hundred messages per month, on average, customers who pay per-message send or receive an average of only 27 messages per month.

Verizon Wireless believes that providing a choice of messaging options is the best way to meet customers’ needs. For customers who are more than occasional users, bundles or unlimited messaging enhance customer satisfaction by providing better value and helping customers avoid surprises when they get their bill. This, in turn, benefits Verizon Wireless through fewer calls to customer service centers, fewer adjustments to bills, and higher customer satisfaction. Increased customer loyalty can also lead to more revenue predictability, which enables Verizon Wireless to plan and invest in network enhancements to improve all customers’ experience.

Verizon Wireless’ pricing decisions for pay-as-you-go text messaging reflect our attempts to create incentives for customers to subscribe to bundles, and we made those decisions unilaterally, in conjunction with pricing decisions for a broader range of services. For example, when Verizon Wireless made the decision to raise pay-as-you-go rates from 10 to 15 cents in 2007, it simultaneously increased the number of texts in the bundles, effectively decreasing the rates for bundled messages and reinforcing customers’ incentives to subscribe to bundles if their text messaging needs justified it. Likewise, when deciding to adjust the price of pay-as-you-go text messaging from 15 to 20 cents this year, Verizon Wireless did so in the context of having recently pioneered introduction of \$99 unlimited voice access, which effectively lowered voice rates for hundreds of thousands of customers.



The factors discussed above—the significant increase in text message volume; the decrease in the effective rate per text message; the relatively small (and diminishing) proportion of text messages attributable to pay-as-you-go customers; and our efforts to match customers to the plan best suited to their usage—are all evidence of a vibrant, competitive marketplace. The fact that, over a ten month period, the four largest wireless providers each unilaterally arrived at the same rates for one isolated element of the vast array of services they sell—pay-as-you-go text messaging—is not evidence of any absence of competition. To the contrary, similar pricing is what one expects in a *competitive* market. Indeed, the fact that competitors are watching each other's actions and taking them into account in making their own unilateral business judgments is evidence of competition. And in any event, there are significant differences in the design of the options and the prices charged by wireless carriers, both for the services they offer in general and for their monthly text messaging plans.<sup>3</sup>

The result at Verizon Wireless has been a steady decline in the effective per message rate for text messaging. That Verizon Wireless has been able to meet the exploding demand for text messaging while driving the effective rate per message to a rate below two cents speaks to the health of the market for text messaging services and the value created for consumers.

If you have any questions about this response, please do not hesitate to contact me.

Sincerely,



Lowell C. McAdam

Enclosures

---

<sup>3</sup> Attached is a comparison of wireless carriers' messaging service options and prices compiled based on publicly available information as of the second quarter of 2008.



# VZW Messaging Offers – September 2008

Monthly Access	250 TXT/PIX/FLIX/IM
\$5	
\$10	Unlimited IN 500 TXT/PIX/FLIX/IM
\$15	Unlimited IN 1500 TXT/PIX/FLIX/IM
\$20	Unlimited IN 5000 TXT/PIX/FLIX/IM
	OR
	Unlimited if on Select Plan
\$30	Unlimited if on Family Select Plan (up to 5 lines)
Overage	\$0.10 (send and receive)
<b>PAYG Messaging (send and receive)</b>	<b>TXT/IM \$0.20 PIX/FLIX \$0.25</b>



# Messaging Comparison 2Q 2008

Monthly Access	VERIZON WIRELESS IN Messaging Bundles	AT&T Messaging & Media Packs	USCC Message Packages <sup>2</sup>	ALLTEL Access Messaging	SPRINT Messaging	T-MOBILE Messaging Packages
\$5	250 TXT/PIX/FLIX/IM	200 TXT/PIX/FLIX/IM	250 TXT (\$4.95) 50 PIX (\$5.95) (Free Incoming Msg)	200 TXT/PIX/FLIX/IM	300 TXT/PIX/FLIX/IM	400 TXT/PIX/FLIX/IM (\$4.99)
\$10	Unlimited IN 500 TXT/PIX/FLIX <sup>1</sup>		750 TXT (\$9.95) 100 PIX (\$10.95) (Free Incoming Msg)	400 TXT/PIX/FLIX/IM (\$7.99)	1000 TXT/PIX/FLIX/IM	1000 TXT/PIX/FLIX/IM (\$9.99)
\$15	Unlimited IN 1500 TXT/PIX/FLIX <sup>1</sup>	1500 TXT/PIX/FLIX/IM	UNL TXT (\$14.95) <sup>4</sup> UNL PIX (N/A)	1000 TXT/PIX/FLIX/IM (\$12.99)		UNL TXT/PIX/FLIX/IM <sup>4</sup> (\$14.99)
\$20	Unlimited IN 5000 TXT/PIX/FLIX <sup>1</sup>	UNL TXT/PIX/FLIX/IM <sup>4,6</sup>	UNL TXT (\$19.95) <sup>5</sup> (on Family accounts)	UNL TXT/PIX/FLIX/IM <sup>4,5,7</sup> (\$19.99 per line)		UNL TXT/PIX/FLIX/IM <sup>5</sup> (\$19.95 on Family Time & myFaves FSP Accounts)
\$30		UNL TXT/PIX/FLIX/IM <sup>5</sup> (on Family Talk plans)				
Overage (send & receive)	\$0.10	\$5 Package \$0.10 \$15 Package \$0.05	TXT \$0.20 PIX \$0.25	\$0.15	\$0.20	\$0.20
PAYG Messaging (send & receive)	TXT/IM: \$0.20 PIX/FLIX: \$0.25	TXT/IM: \$0.20 PIX/FLIX: \$0.30	Free Incoming TXT: \$0.25 Send PIX: \$0.25 Send	TXT/IM: \$0.15 PIX/FLIX: \$0.25	TXT: \$0.20 PIX: \$0.03/kb	ALL: \$0.20
Unlimited Offers (Message from any carrier)	Single - "Select Plans", additional \$20 Family - Select Plans, additional \$30	Single - \$20 add on Family - \$30 add on	SMS Only Single - \$14.95 add on Family - \$24.95 add on	Single + web \$19.99 Family - N/A	Baked in, incremental ~\$10 w/PTT	Single - \$14.99 Family - \$19.95

<sup>1</sup> Allotments refer to msgs to/from non-VZW customers, IMs, & Alerts.

<sup>2</sup> USCC has a lower picture messaging plan \$2.95/20 PIX MSG.

<sup>3</sup> Sprint includes UNL PIX MSG on their Power Vision packages, starting at \$15.

<sup>4</sup> Verizon Wireless' Nationwide Select FSPs include UNL TXT, PIX, FLIX & IM on all lines on the account.

<sup>5</sup> AT&T adds UNL CV and Media Net for an additional \$15 (overage is \$0.05/msg).

<sup>6</sup> Alltel includes Access Web in their unlimited messaging package.

<sup>7</sup> Alltel includes Access Web in their unlimited messaging package.